

The geopolitics of Pakistan's 2018 greylisting by the Financial Action Task Force

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sagepub.com/journals-permissionsDOI: [10.1177/00207020211016481](https://doi.org/10.1177/00207020211016481)journals.sagepub.com/home/ijx**Abdur Rehman Shah** 

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Abstract

This article argues that, in addition to the valid reasons for Pakistan's greylisting by the Financial Action Task Force (FATF) in 2018, geopolitical dynamics also played a crucial role behind this development. While the United States (US) under the Trump administration pushed Pakistan to seek an end to "the longest war" in Afghanistan, India, hoping to curb cross-border terrorism, capitalized on this momentum to pressure Pakistan. In order to hastily greylist Pakistan, institutional procedures of the FATF were thus disregarded. The case study demonstrates how economic coercion was used to push Pakistan to accept US and FATF demands. This article argues that Pakistan's greylisting has created a win-for-all scenario for now. But these gains should not be overrated. Pakistan's implementation of FATF requirements faces significant structural limitations. Still, the consensus between major actors underscores the potential of the FATF to counter money laundering and financing of terrorism globally.

Keywords

Financial Action Task Force, Pakistan, greylist, counterterrorism, geopolitics, United States, India, blacklist

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In February 2018, the Financial Action Task Force (FATF) placed Pakistan on the roster of “jurisdictions under increased monitoring,” often referred to as the “greylist.” It was the second time in six years that the country was put on this list. One of the main reasons for this return to the list was that Pakistan was unable to implement a comprehensive anti-money laundering and combating financing terrorism (AML/CFT) regime that the country was bound to enact under FATF commitments after its removal from the list in 2015. However, the decision to greylist Pakistan in early 2018 had important procedural limitations. The FATF guidelines for listing of any country involve a lengthy “review process.” Accordingly, for the purpose of review, a nominated country with deficiencies in its AML/CFT regime has at least a “one-year Observation Period”¹ to address its strategic flaws. After this stage, if a country fails to improve its AML/CFT deficiencies, the FATF moves to include the relevant country in its public statements in the form of a blacklist or greylist. In the case² of Pakistan’s grey-listing, not only was this procedure sidestepped but the discussion about Pakistan was raised twice in a single plenary. Under normal procedures, the case of any particular country is subjected to discussion (and voting) only once during a single FATF plenary. But that practice was disregarded in the case of Pakistan.

Even if the FATF had valid reasons to put Pakistan on the greylist, the timing and method of the decision were largely shaped by geopolitical dynamics involving the United States (US), India, and China. In other words, the geopolitical imperatives of major powers trumped the rules and principles of the FATF in this case. The US under the Trump administration had two reasons to push for Pakistan’s greylisting. First, Washington had long resented the subversive role of the Pakistan-based Haqqani Network (HQN) in Afghanistan as well as the freedom of movement and activities of the key leadership of Jamaat-ud-Dawah (JuD). Second, listing Pakistan was important for the ultimate success of Trump’s Afghanistan strategy, which was based on negotiations with the Taliban and withdrawal of US troops from the country. On the other hand, India, which has persistently strived to isolate Pakistan, seized the opportunity to mount further pressure on Pakistan. The US and India prevailed upon other relevant powers (e.g., the United Kingdom (UK), France, China, and Saudi Arabia) to form an alliance within the FATF so as to place Pakistan on the greylist.

The article bases its thesis on the concept of “economic coercion.” The punitive measures related to greylisting and blacklisting function as economic coercion to bring about the desired changes in the AML/CFT approach of the concerned country. As such, this essay argues that the FATF—in addition to its manifest role of AML/CFT—has been an instrument of great powers’ interests and

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1. Financial Action Task Force (FATF), “High Risk and Other Monitored Jurisdictions,” Paris, 2020, [\(accessed 19 June 2020\).](https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/more/more-on-high-risk-and-non-cooperative-jurisdictions.html?hf=10&b=0&s=desc(fatf_releasedate))
 2. Editorial Staff, “Alone at FATF,” *Dawn*, 25 February 2018, [\(accessed 25 August 2020\).](https://www.dawn.com/news/1391593)

priorities.³ In this respect, the US enjoys greater relative leverage in coercing countries (e.g., Pakistan) to take necessary measures against the financing of terrorism.⁴

Extant debates and narratives, comprised mainly of media accounts, interpret Pakistan's greylisting in 2018 as nothing but an inevitable corollary of the country's persistent failures to rein in its homegrown militant organizations. This perspective is important, but it largely misses the bigger picture of geopolitical dynamics and diplomatic manoeuvrings of major actors behind the move. By critically analyzing the case study of Pakistan's greylisting, this article seeks to highlight the complex procedures and dynamics of geopolitics behind FATF greylisting and blacklisting. Second, Pakistan's monitoring by the FATF has been relatively underexplored by the existing literature on security and international studies. A detailed evaluation of Pakistan's homegrown militant outfits within the context of the FATF has significance for debates around security and stability in the Pakistan–Afghanistan–India region. Above all, this article contributes to debates about the concept of economic coercion and its impact on FATF listings.

The remainder of the article proceeds as follows. It first provides a primer on the FATF as a global money laundering and terrorism financing watchdog. The second section explores the concept of economic coercion, seen through the FATF's employment of enforcement tools. The third section provides a brief background of Pakistan's counterterrorism history and then analyzes the role and motives of certain global actors in the entire episode of Pakistan's greylisting in early 2018. Specifically, the geopolitical quadrangle of the US, Pakistan, India, and China, at play at the regional level, is explored. The fourth section explains how the 2018 greylisting worked in the case of Pakistan and evaluates the outcomes of the country's listing.

FATF: Battling money laundering and financing of terrorism through economic coercion

The FATF, an intergovernmental organization, was originally "commissioned" by G-7 countries during a summit held in Paris in 1989 as "a temporary task force" to "look at the issue (of money laundering) and make recommendations for the control of this problem."⁵ The FATF set up a proper international framework to combat money laundering by introducing the Forty Recommendations on

3. Anja P. Jakobi, "Governing illicit finance in transnational security spaces: The FATF and anti-money laundering," *Crime, Law and Social Change* 69, no. 2 (2018):173–90; Eleni Tsingou, "Global financial governance and the developing anti-money laundering regime: What lessons for international political economy?" *International Politics* 47, no. 6 (2010): 617–637; and Mark T. Nance, "The regime that the FATF built: An introduction into Financial Action Task Force," *Crime, Law and Social Change* 69 (2018): 109–129.
4. Julia C. Morse, "Blacklist, market enforcement, and the global regime to combat terrorist financing," *International Organization* 73, no. 3 (2019): 511–545.
5. Louis de Koker and Mark Turkington "Transnational organised crime and the anti-money laundering regime" in Pierre Hauck and Sven Peterke, eds., *International Law and Transnational Organized Crime* (New York: Oxford University Press, 2016), 244.

money laundering, which are still functional, with some revisions. The evolution of the FATF as a global AML/CFT institution was heuristic in the sense that it was not as global, comprehensive, and pervasive at the onset as it is currently. During 1990s, AML was the concern of mainly wealthy countries in the Organisation for Economic Cooperation and Development. Soon, these countries were forced to change their approach after they realized that “criminals would simply avoid countries with tough AML standards by rerouting their finance through countries that had no such laws.”⁶ The FATF, therefore, initiated the process of “blacklisting” by compiling a list of non-cooperative countries or territories (NCCT) in September 1999 to enforce necessary AML reforms among non-member states.⁷ After a due review process, the FATF released the first such list of fifteen blacklisted countries in June 2000, thereby profoundly impeding international financial transactions with these NCCTs.

In the aftermath of terrorist attacks against the US on 11 September 2001, the agenda of the FATF was extended to fight against the financing of terrorism. Eight Special Recommendations were issued, and the Forty Recommendations were revised. Moreover, the FATF obliged the countries to fully implement the 1999 UN Convention for the Suppression of the Financing of Terrorism and UN Security Council (UNSC) resolution 1373. On its part, the UNSC reinforced the mandate of the FATF by adopting UNSCR 2462, thereby urging all countries to implement the FATF recommendations and standards. The FATF relies heavily on the mechanism of “mutual evaluations” to assess the compliance level of countries toward its AML/CFT regime and, accordingly, makes required recommendations. Mutual evaluations are “peer reviews,” where members from different countries assess another country with the caveat that “the onus is on the assessed country to demonstrate that it has an effective framework to protect the financial system from abuse.”⁸

The objectives of the FATF have become twofold: “to set standards [firstly] and [secondly] promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.”⁹ The FATF includes 39 members (37 countries and two regional organizations, the Gulf Cooperation Council and the European Commission) and one observer. Nine regional bodies, also called FATF-style regional bodies (FSRBs), including the Asia/Pacific Group on Money Laundering (APG), the Eurasian Group on Combating Money Laundering and Financing of Terrorism, and the Middle East and North Africa Financial Action Task Force, work as “associate members” of the FATF, and

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6. Jason C. Sharman, “Power and discourse in policy diffusion: Anti-money laundering in developing states,” *International Studies Quarterly* 52, no. 3 (2008): 641.
 7. Jason C. Sharman, “The bark is the bite: International organisations and blacklisting,” *Review of International Political Economy* 16, no. 4 (2009): 573–596.
 8. FATF, “Mutual Evaluations,” Paris, 2020, <https://www.fatf-gafi.org/> (accessed 23 August 2020).
 9. FATF, “FATF 30 Years—1989–2019,” Paris, 2019, <https://www.fatf-gafi.org/about/whatwedo/> (accessed 19 June 2020).

about 23 international organizations (e.g., the Asian Development Bank, African Development Bank, European Central Bank, International Monetary Fund, Interpol, World Bank, and UN) hold observer status at the FATF.¹⁰ The FATF jurisdiction thus applies to almost all countries and key international organizations and financial institutions around the globe.

Two types of jurisdictions statements or lists¹¹ are issued by the FATF after plenary meetings, which are held in February, June, and October every year. “Jurisdictions Under Increased Monitoring” applies to countries that, after having been identified for having flawed compliance levels, have already committed to and are actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering and terrorist financing within a specific timeframe. This list is often called the greylist. The second statement is the “High-Risk Jurisdictions Subject to a Call for Action.” Countries under this jurisdiction have significant strategic deficiencies in curbing money laundering, terrorist financing, and financing of proliferation. The FATF urges all other countries to “apply enhanced due diligence” or, in the worst case, “counter-measures to protect the international financial system from the ongoing money laundering, terrorist financing, and proliferation financing (ML/TF/PF) risks” posed by high-risk jurisdiction countries. This list is generally referred to as the blacklist.

The FATF jurisdictions are indeed the embodiment of economic coercion enacted through the tool of blacklisting.¹² Coercion, as defined by Daniel Drezner, is “the threat or act by a sender government or governments to disrupt economic exchange with the target state, unless the target acquiesces to an articulated demand.”¹³ Since the FATF recommendations are an integral part of the UN and other major international conventions, the task force wields considerable “hard power” through sanctions and economic coercion,¹⁴ to interdict the financing of terrorist organizations internationally¹⁵ and disrupt the targeted economies. The FATF sanctions deal specifically with the financial sector and international financial transactions of the concerned country, and thus the greylisting increases scrutiny of any listed country by other members and international financial institutions and banking systems. For the listed country, the result is higher costs of doing trade with its partners. Risks are even higher for the blacklisted or “high-

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10. FATF, “FATF Members and Observers,” Paris, 2020, <https://www.fatf-gafi.org/about/membersandobservers/> (accessed 19 June 2020).
 11. FATF, “High-Risk and Other Monitored Jurisdictions,” <https://www.fatf-gafi.org/> (accessed 19 June 2020).
 12. Jason C. Sharman, “Power and discourse in policy diffusion”; and Daniel Drezner, “Globalization, harmonization, and competition: The different pathways to policy convergence,” *Journal of European Public Policy* 12, no. 5 (2005): 852.
 13. Daniel Drezner, “The hidden hand of economic coercion,” *International Organisation* 57, no. 3 (2003): 643.
 14. Katrin Eggenberger, “When is blacklisting effective? Stigma, sanctions and legitimacy: The reputational and financial costs of being blacklisted,” *Review of International Political Economy* 25, no. 4 (2018): 483–504.
 15. Michael A. Berger, “Interdicting terrorist financing with coercion: Strategies for policy-makers to cut the cash flow of terrorist organizations,” *Defence Studies* 10, no. 3 (2010): 387–404.

risk” countries, with the possibility that they “may no longer be able to do business at all.”¹⁶ In its “Interpretive Note to Recommendation 19” related to high-risk countries the FATF prescribes a list of extensive measures targeting the financial sector of listed countries.¹⁷ The measures vary from “enhanced due diligence” against transactions with the listed country to “[p]rohibiting financial institutions from establishing branches or representative offices in” and “[l]imiting business relationships or financial transactions” with the country concerned. Though not all greylist jurisdictions necessarily end up in blacklist, Pakistan’s case is conspicuous in the sense that the threat of being blacklisted had been unmistakably there since the greylisting of the country in 2018.

The FATF, with its blacklisting jurisdiction, is “a simple exercise of power,” wherein the US enjoys sizable authority. With its historical global pre-eminence in the international system, the US has been “the undisputed financial hegemon” when it comes to the employment of financial sanctions as a policy tool. Through the FATF, the US is able to obtain “the calculated compliance of developing states.” Indeed, the fact that the US aggressively spearheaded the greylisting campaign against Pakistan led to, on the one hand, sidestepping of FATF evaluation procedures and, on the other, Pakistan’s urgency for compliance measures.

The 2018 greylisting: A principled decision or (geo)political manoeuvring?

Since 2008, Pakistan has been in the constant spotlight of the FATF’s concern over counterterrorism. While terrorism in any form is outlawed internationally, certain militant groups in Pakistan have drawn disproportionately higher levels of international alarm. Specifically, JuD, Jaish-e-Muhammad (JeM), Lashkar-e-Tayyiba (LeT), HQN, Tehrik-e-Taliban Pakistan, the Afghan Taliban, and Al Qaeda, having established their bases in Pakistan, coordinate and carry out terrorist activities against the US and its allies in Afghanistan and India and Indian-administered Kashmir (IAK).¹⁸ A common argument is that Pakistan has largely allowed these groups to function on its soil even if the US and UNSC have plainly banned these militant organizations. Since these groups are outlawed under UNSCR 1267 (which lays out a comprehensive framework for actions and measures against persons and entities designated as terrorists), UNSCR 1373 (which criminalizes the financing of terrorism and associated money laundering and reinforces the FATF Recommendations), and also the FATF regime itself, Pakistan has been consistently faulted by the international community—especially the US,

16. FATF, “FATF 30 Years—1989–2019,” 65.

17. FATF, “The FATF Recommendations,” Paris, 2020, 82, <https://www.cfatf-gafic.org/index.php/documents/fatf-40r/385-fatf-recommendation-19-higher-risk-count> (accessed 24 August 2020).

18. Mariam Mufti, “Religion and militancy in Pakistan and Afghanistan: A literature review,” Centre for Strategic & International Studies, June 2012, <https://www.csis.org/analysis/religion-and-militancy-pakistan-and-afghanistan> (PDF) (accessed 19 June 2020).

India, and Afghanistan—for not complying with the norms of international peace and security.

The presence of these menacing entities was compounded by Pakistan's glaring failure to devise and implement adequate legal and regulatory frameworks to curb the functioning of domestic extremism. As a member of the APG, an associate member of the FATF, Pakistan is bound to comply with the AML/CFT standards as set by the FATF and UN. It is, therefore, not surprising that, with the exception of a three-year breather (2015–2017), Pakistan has, since 2008, been consistently featured in the FATF annual statements.

After a three-year reprieve, in February 2018 the FATF in a highly dramatic and contentious move decided again to put Pakistan on the greylist. In practical terms, the decision was tenable. Even after its removal from the greylist in 2015 and commitment to work on obligations, Pakistan deliberately dragged its feet on the FATF's demand to implement UNSCR 1267.¹⁹ The FATF was, in fact, quick to discern these “outstanding gaps” in executing UNSC resolutions regarding the designated entities as early as 2016²⁰ and 2017.²¹ This fact was not lost on the civilian government in Islamabad, which was concerned about the stern writing on the wall: “act against militants or face international isolation.”²²

There were other glaring manifestations of Pakistan's contradictory performance. India blamed Pakistan-based militant outfits, especially the LeT and JeM for Pathankot (2 January) and Uri (18 September) attacks in 2016. Then in 2017, Pakistan took steps related to JuD (considered a “front” for LeT) that were clearly unsettling. First, the government put Hafiz Saeed under house arrest and the JuD and its charity, Falah-e-Insaniat Foundation (FIF), on the Watch List. But later on, in a brazen move, the JuD, purportedly with the blessing of the state,²³ launched its political party, the Milli Muslim League, to contest the national elections of 2018. The move to carve out a political role for JuD, according to one analyst, was “meant to legitimize or camouflage Jamaat-ud-Dawa’s actions and avert international sanctions.”²⁴ Hafiz Saeed himself was also released from house arrest in August 2017.

Hence, the 2018 greylisting of Pakistan was a much expected outcome of all the failings of Pakistan. However, this perspective explains only part of the puzzle.

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19. Editorial Staff, “Alone at FATF.”
 20. US Department of State, Bureau of Counterterrorism, *Country Reports on Terrorism 2016*, July 2017, https://www.state.gov/wp-content/uploads/2019/04/crt_2016.pdf (accessed 19 June 2020).
 21. Baqir Sajjad Syed, “Pakistan still on radar of terror financing watchdog,” *Dawn*, 1 July 2017, <https://www.dawn.com/news/1342535> (accessed 19 June 2020).
 22. Cyril Almeida, “Act against militants or face international isolation, civilians tell military,” *Dawn*, 6 October 2016, <https://www.dawn.com/news/1288350> (accessed 19 June 2020).
 23. Asif Shahzad, “Pakistan army pushed political role for militant-linked groups,” *Reuters*, 16 September 2017, <https://www.reuters.com/article/us-pakistan-politics-militants/pakistan-army-pushes-political-role-for-militant-linked-groups-idUSKCN1BR02F> (accessed 19 June 2020).
 24. Mehreen Zahra-Malik, “He’s on wanted posters in U.S., and campaign posters in Pakistan,” 16 September 2017, *The New York Times*, <https://www.nytimes.com/2017/09/16/world/asia/pakistan-hafiz-muhammad-saeed-milli-muslim-league.html> (accessed 19 June 2020).

Although the US and India might have had good reasons to pressure Pakistan, the *modus operandi* of greylisting had major limitations.

Pakistan's greylisting and the FATF rules and procedures

The process of greylisting requires two steps.²⁵ In the first, there is a “review process” of a country’s AML/CFT performance conducted by the International Cooperation Review Group (ICRG).²⁶ The review process is long and may take more than a year. The FATF looks for all the flaws and progress made by the country during this assessment phase. The FATF then crafts an “action plan” for the country in the case that it has not made sufficient progress and needs further efforts to deal with strategic deficiencies in its AML/CFT regime. Hence, the entire review process is predicated on a solemn commitment on the part of jurisdiction/country under review to adopt all legal, regulatory, and operational reforms as laid out by the action plan (prepared by the FATF). The jurisdiction at this stage has a “one-year observation period” to either work with the FATF or an FSRB and address the flaws in its AML/CFT regime or risk the possible listing and review by FATF later. The second step is that of “public identification” of a country in one of the two jurisdictions or lists (i.e., greylist or blacklist). If a country fails to improve its AML/CFT during its review process or it does not cooperate at all, it can be publicly identified on either of the two lists.

In principle, then, Pakistan could not be put on the greylist in such a short time span. However, the geopolitical imperatives of major powers trumped FATF procedures. First, as part of the review process, there is usually only a single discussion about each country under review in a single plenary meeting. For Pakistan, this was held on 20 February 2018. But in this case, the US and its partners (India, the UK, France, and Germany) pushed for a second discussion and, hence, voting on Pakistan was held on 22 February, after China, Saudi Arabia, and Turkey’s support for Pakistan aborted the US effort during the first discussion. Second, as previously described, the FATF procedures stipulate that “A jurisdiction that enters the ICRG review process as a result of its mutual evaluation results has a one-year observation period to work with the FATF or its FSRB to address deficiencies before possible public identification and formal review by the FATF.”²⁷ Given the complexity of the entire exercise, “[a] complete mutual evaluation takes up to 18 months.”²⁸

25. FATF, “FATF 30 Years- 1989–2019,” 64–64.

26. ICRG is a review body of the FATF, established in 2007 to analyze high-risk countries and accordingly recommend specific actions.

27. FATF, “High Risk and Other Monitored Jurisdictions,” Paris, 2020, [https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/more/more-on-high-risk-and-non-cooperative-jurisdictions.html?hf=10&b=0&s=desc\(fatf_releasedate\)](https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/more/more-on-high-risk-and-non-cooperative-jurisdictions.html?hf=10&b=0&s=desc(fatf_releasedate)) (accessed 19 June 2020).

28. FATF, “Mutual Evaluations,” Paris, 2020, <https://www.fatf-gafi.org/publications/mutualevaluations/more/more-about-mutual-evaluations.html?hf=10&b=0&s=desc> (accessed 23 August 2020).

Thus, in the case of Pakistan, the FATF, in a stark contrast to its own rules and principles, made an “unprecedented” move and yielded to pressure from the great powers, especially the US.²⁹ At Washington’s behest, the watchdog first took up Pakistan’s case as having “strategic deficiencies” in CFT and then—in the same plenary meeting—hastily decided to put Pakistan on the greylist. The move was a clear contravention of FATF rules (as mentioned above) and precedents. For example, Sri Lanka, which like Pakistan is an APG member, was also put on the greylist in June 2018. But the FATF followed the above-mentioned process before formally identifying the country. By the time of its greylisting, Sri Lanka had³⁰ in fact, three successive reviews since 2015. In the case of Pakistan, however, no such prior review process occurred. The last review of Pakistan had been conducted by APG 10 years back, in 2009. Hence, the move deprived Pakistan of the crucial observation period of at least one year before it could be placed on the greylist. Geopolitical dynamics involving the US, India, and others played a key role in sidestepping these procedural requirements.

The geopolitical contours of Pakistan’s greylisting

The contours of Pakistan’s FATF greylisting have to be understood against the backdrop of the geopolitical quadrangle of US, Pakistan, India, and China relationships at play in South Asia or, more precisely, the Afghanistan–Pakistan region. As mentioned earlier, since the start of the “war on terrorism” in 2001, the US has heavily relied on Pakistan for the former’s Afghanistan mission. Pakistan facilitated and coordinated with the US invasion of Afghanistan to such a level that, in 2004, it was assigned the status, though largely symbolic, of “a major non-Nato ally.” However, within a few years the Bush administration raised concerns that Pakistan, despite being compensated generously for supporting the US, was deliberately procrastinating and, in fact, undermining US efforts to rout the Taliban and al-Qaeda in the region.³¹ The US accused Pakistan of playing “both sides”³² by ostensibly siding with the US while covertly sponsoring insurgency in Afghanistan. This refrain has continued to date, as the US believes Pakistan-based HQN and other militant groups actively work to undermine US strategy in Afghanistan and its interests in the region.

For its part, Pakistan’s strategy in the region has two dimensions. First, Pakistan is believed to maintain close ties with Afghan insurgents (i.e., the

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- 29. Anwar Iqbal, “Pakistan may find itself on FATF blacklist after June 2018,” *Dawn*, 26 February 2018, <https://www.dawn.com/news/1391835> (accessed 19 June 2020).
 - 30. Asia-Pacific Group, “3rd follow-up report: Mutual evaluation of Sri Lanka,” September 2018, <http://www.apgml.org/documents/default.aspx?s=date&pcPage=4> (accessed 20 June 2020).
 - 31. Ashley Tellis, “Pakistan and the war on terror: Conflicted goals, compromised performance,” Carnegie Endowment for International Peace, 2008, https://carnegieendowment.org/files/tellis_pakistan_final.pdf (accessed 19 June 2020).
 - 32. US Department of Defense, *U.S.-Pakistani Relations Can Make ‘Strategic Hedge’ Moot, Top Officials Say*, 18 May 2009, <https://archive.defense.gov/news/newsarticle.aspx?id=54393> (accessed 19 June 2020).

Taliban) in order to cultivate an amicable future government in Kabul. Presently, the increasing amity between the post-Taliban regime in Kabul and India—the arch-rival of Pakistan—and hostile relations between Islamabad and Kabul complicates Pakistan's strategic dilemma in Afghanistan. Second, Pakistan's main strategic goal has been to counter and balance its more powerful and larger rival India, especially by regaining the disputed territory of Kashmir. For these reasons, Pakistan has been less willing to take on some of its domestic militant outfits. To that end, according to India, Pakistan has waged a “proxy war,” using militant outfits against the Indian territory and IAK.³³ In many ways, India and the US share common strategic goals. Both hold the same perspective about Pakistan's use of domestic proxies for war against India and Afghanistan. However, the US is more open to India's increased role in Afghanistan. Above all, the US seeks to bolster India's strategic standing so as to counter the rise of China in the region. Pakistan, therefore, has long been skeptical about the “US–India–Afghan alliance” in the region.³⁴

If the US and India have warmed to each other, the deepening alliance between China and Pakistan has defined the other spectrum of this quadrangle. China has for decades supported Pakistan diplomatically and substantially bolstered its military capabilities. Analysts believe China's strategic support to its “all weather” friend is in fact motivated by a ploy to check India's major power ambitions.³⁵ China's multi-billion-dollar investments in Pakistan under the China–Pakistan Economic Corridor has further complicated India's as well as the US's strategic calculations. On the question of Pakistan's counterterrorism policies and performance, China stands as a formidable countervailing force or even a spoiler against the US–India alignment. China's diplomatic support has provided Pakistan nearly blanket cover against Indian motions at international fora. There are some exceptions where China has relented in the face of international pressure (e.g., designation of JeM's leader Masood Azhar by UNSC in May 2019) or in view of its own strategic calculations (e.g., the FATF meeting in February 2018). However, since 2009, China has foiled nine efforts, mostly led by India, to blacklist the JeM chief at the UNSC.

Against this backdrop, when the Trump administration assumed power, Pakistan once again factored as an ineluctable question. There were two dimensions to Pakistan's pertinence to Trump's Afghanistan strategy, which also eventually catalyzed the process of Pakistan's greylisting. On the issue of Pakistan's role and interference in Afghanistan, Donald Trump's policy toward Pakistan had

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- 33. Press Trust of India, “Pakistan should end ‘proxy war’ against India: Indian envoy,” NDTV, May 2019, <https://www.ndtv.com/india-news/indian-envoy-to-islamabad-ajay-bisaria-says-pakistan-should-end-proxy-war-against-india-to-move-forward-2041558> (accessed 19 June 2020).
 - 34. Barnett Rubin, and Ahmed Rashid, “From great game to grand bargain: Ending chaos in Afghanistan and Pakistan,” *Foreign Affairs*, November/December 2008, <https://www.foreignaffairs.com/articles/2008-11-01/great-game-grand-bargain> (accessed 19 June 2020).
 - 35. Saira Basit, Stina Torjesen, and Neil S. Macfarlane, “China in Pakistan and the wider region: A cautious but effective leader?” *Contemporary South Asia* 29, no. 1 (2019): 15–26.

initially been that of maximum pressure, which put to wind any cautions and restraint previous administrations had mostly adhered to, even at times of serious crises. Soon after taking charge in January 2017, the Trump administration conveyed a tough message to Pakistan on the issue of homegrown militants and Afghanistan. While outlining his new strategy on Afghanistan, in August 2017, Donald Trump took Pakistan to task for supporting and sheltering the terrorist outfits that destabilize Afghanistan.³⁶ The US then, in January 2018, suspended nearly all military aid to Pakistan for the latter's failure to rein in terrorist groups. Earlier in January, Donald Trump had censured Pakistan in a scathing tweet:

The United States has foolishly given Pakistan more than 33 billion dollars in aid over the last 15 years, and they have given us nothing but lies & deceit, thinking of our leaders as fools. They give safe haven to the terrorists we hunt in Afghanistan, with little help. No more.³⁷

The Trump administration's exit strategy from Afghanistan, however, made Washington's relationship with Pakistan more complex. Within a few months, Trump revealed that "[m]y original instinct was to pull out" from Afghanistan. After a prolonged consultation with cabinet, security officials, and advisers, however, he changed his mind.³⁸ In early 2018, the US policy was to hold direct talks with the Taliban to end the Afghan war. By the end of that year, Washington announced the withdrawal of 7000 troops in the ensuing months. The US held high-level direct talks with the Taliban for the first time in July 2018 in Qatar and then appointed Zalmay Khalilzad, the former US ambassador to Afghanistan, as special representative for Afghanistan reconciliation in September 2018.

The issue of withdrawal gained greater urgency in 2019 as Trump revealed a prospective timeline for the exit: before the November 2020 presidential elections. In order to prod the Taliban to talks, however, Washington needed the support of Pakistan more than ever. Therefore, in 2019, the US adopted a rather mild and friendly tone. But the strategy of pressure against Pakistan, according to outgoing Acting Assistant Secretary for South Asia Alice Wells, worked to a great extent in getting Pakistan behind Trump's mission of paving way for ultimate withdrawal and dismantling the terrorist outfits domestically.³⁹ Not only did Pakistan free top Taliban leader Mullah Abdul Ghani Baradar (who then led the Taliban team in talks) on the US's insistence, but it also played a key role in facilitating talks

36. US Office of the Press Secretary, *Remarks by President Trump on the Strategy in Afghanistan and South Asia*, White House briefing, 21 August 2017, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-strategy-afghanistan-south-asia/> (accessed 19 June 2020).

37. "Trump Attacks Pakistan 'Deceit' in First Tweet of the Year" BBC News, 1 January 2018, <https://www.bbc.com/news/world-us-canada-42536209> (accessed 20 March 2021).

38. Ibid.

39. US Department of State, Bureau of South and Central Asian Affairs, *Digital Briefing with Ambassador Alice G. Wells, Acting Assistant Secretary, Bureau of South and Central Asian Affairs*, 20 May 2020, <https://www.state.gov/digital-briefing-with-ambassador-alice-g-wells-acting-assistant-secretary-bureau-of-south-and-central-asian-affairs/> (accessed 19 June 2020).

between the two parties. By mid-2019, the US and the Taliban almost signed a deal to end the longest war in US history. Trump acknowledged the significance of Pakistan's role:

There is tremendous potential between our country and Pakistan. I think Pakistan is going to help us out to extricate ourselves [from Afghanistan] [...] I think that Pakistan is going to be a big help [...] I think Pakistan will save millions of lives in Afghanistan [...] As of this moment, they're working very hard and very nicely, and we appreciate it.⁴⁰

Toward the final blow: The “second” attempt at greylisting

The shift in Pakistan's behaviour could not be imagined without Trump's maximum pressure policy, including the use of the FATF platform against Pakistan. Though Pakistan protested the greylisting as “politically motivated,”⁴¹ Washington made amply clear to Islamabad that the road to an improved US–Pakistan relationship “could only be routed through Kabul.”⁴² In return, Pakistan revealingly asserted that, since it had delivered successfully on almost all American demands about peace talks (persuading the Taliban, freeing Baradar to ensure an authoritative peace delegation from the Taliban), it now expected the US to ensure Pakistan's removal from the FATF greylist.⁴³ Hence, Pakistan had a clear impression that the greylisting was motivated by the Trump administration's stakes in Afghanistan.

India is another major power which greatly complemented the American initiative against Pakistan at the FATF in 2018. Indeed, New Delhi effectively seized upon the Trump administration's disillusionment with Pakistan during its early years. The US and India share fundamental priorities on the issue of Pakistan's homegrown terrorist entities. Since late 2017, New Delhi has tried its best to blacklist or at least foil any effort to get Pakistan off the greylist. From a strategic perspective, India made the maximal use of the FATF platform against its rival.

The February 2018 plenary was particularly embarrassing and damaging for Islamabad. In the initial discussion on 20 February, Pakistan mustered enough diplomatic support (from China, Saudi Arabia, and Turkey) to thwart the move by the US, UK, and India to put it on the greylist. Pakistan's Foreign Minister even celebrated it and thanked friendly countries for their support. But then the US and

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- 40. “Text of Remarks by President Donald Trump and Prime Minister Imran Khan at White House,” *The News*, 23 July 2019, <https://www.thenews.com.pk/latest/502379-text-of-remarks-by-president-trump-and-prime-minister-imran-khan-at-white-house> (accessed 20 March 2021).
 - 41. Kamran Yousaf, “US bid to put Pakistan on terror financing watch-list falls through,” *The Express Tribune*, 20 February 2018, <https://new.tribune.com.pk/story/1640157/1-us-bid-put-pakistan-global-terror-watch-list-fails> (accessed 19 June 2020).
 - 42. Anwar Iqbal, “Pakistan wants US to get it off FATF grey list,” *Dawn*, 19 January 2020, <https://www.dawn.com/news/1529245> (accessed 19 June 2020).
 - 43. Ibid.

India did something extraordinary. Both crafted a new alliance to set the agenda for Pakistan's greylisting in the next round. The US pushed and convinced Saudi Arabia to withdraw support for Pakistan during the second voting, held on 22 February. Likewise, India reportedly made a deal with China, stipulating that, if the latter did not support Islamabad, New Delhi would advocate for Beijing's greater role in the FATF, specifically the vice chairmanship.⁴⁴ Once Saudi Arabia and China withdrew their support for Pakistan, India and the US prevailed in placing Pakistan on the greylst. Interestingly, China received the vice chairmanship (and later the chairmanship) of the FATF the next day.

Lastly, as a member of the FATF and the APG and co-chair of the APG, India has complicated Pakistan's position by directing the agenda of FATF meetings against Pakistan. To begin with, the FATF language increasingly echoes the Indian position vis-à-vis Pakistan. Since early 2019, the FATF plenary statements have explicitly addressed Pakistan with a distinctly menacing tone. For example, the February 2020 statement of the FATF ended with the note that, if Pakistan fails to make substantial progress by the next plenary "the FATF will take action, which could include the FATF calling on its members and urging all jurisdictions to advise their [financial institutions] to give special attention to business relations and transactions with Pakistan."⁴⁵ In another case, India has even tried to have Pakistan placed on the FATF blacklist. During the June and October 2019 plenaries, India gave Pakistan quite a hard time. Though India has not been able to achieve this goal so far, it has strived to foil any attempt to clear Pakistan from the greylst.

India has thus turned its influence at the FATF forum into tangible geopolitical gains vis-à-vis Pakistan. Pakistan has been put on the defensive and cornered to an extent. The country has repeatedly expressed its displeasure about India's "animosity" at the FATF and formally demanded the watchdog to remove India from its APG co-chair position. Islamabad has finally moved to restrain India-focused militant outfit, their charities, and top leadership. More importantly, cross-border terrorist incidents seem to have halted for now. In fact, Pakistani PM Imran Khan has repeatedly dissuaded people from going to "fight"⁴⁶ in Indian-held Kashmir or "crossing the line of control."⁴⁷

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44. Maria Abi-Habib and Salman Masood, "Pakistan's shields suddenly step aside, placing it on terrorism listing," *The New York Times*, 1 March 2018, <https://www.nytimes.com/2018/03/01/world/asia/pakistan-terrorism-china-saudi-arabia.html> (accessed 19 June 2020); and Pranab Samanta Dhal, "Pakistan on FATF's grey list: How India convinced China & Pak shot itself in the foot," *The Print*, 23 February 2018, <https://theprint.in/defence/pakistan-fatfs-grey-list-india-convined-china-pak-shot-foot/37751/> (accessed 19 June 2020).
 45. FATF, "Outcomes of FATF plenary, 19–21 February 2020," Paris, 21 February 2020, <https://www.fatf-gafi.org/publications/fatfgeneral/documents/outcomes-fatf-plenary-february-2020.html> (accessed 19 June 2020).
 46. Agence France-Presse, "Don't go to fight in Kashmir, Imran Khan warns Pakistanis," *The Hindu*, 18 September 2019, <https://www.thehindu.com/news/international/imran-khan-warns-pakistanis-against-jihad-in-kashmir/article29450251.ece> (accessed 20 March 2021).
 47. Iftikhar A. Khan, "Imran again warns AJK people against crossing LoC", *Dawn*, 6 October 2019, <https://www.dawn.com/news/1509303> (accessed 20 March 2021).

Though China has supported its ally in multiple ways, it does not necessarily mean Beijing actually endorses Islamabad's policies related to domestic militant entities. China has on many occasions, though more discreetly, urged Pakistan to rein in the homegrown militant groups.⁴⁸ One recent study found that China repeatedly thwarted the blacklisting of the JeM chief, fearing that the terrorists will eventually retaliate and undermine China's broader geopolitical interests in Pakistan, including regional stability, the Belt and Road Initiative, and the pursuit of the "China Dream."⁴⁹ China's retreat from supporting Pakistan during the second voting, according to analysts, was driven by Beijing's disgruntlement with Islamabad's inaction against the militant groups operating in the country.⁵⁰ In this way, China also had something to gain from Pakistan's greylisting—though Beijing had no direct role in moving the FATF against Islamabad.

How the greylisting worked in the case of Pakistan

The 2018 greylisting of Pakistan has—for now—created a win-for-all scenario for the three actors (i.e., the US, India, and China) in this quadrangle. Pakistan has taken measures to curb the activities of domestic terrorist outfits. It moved to ban the JuD and FIF, and it eventually indicted Hafiz Saeed, long demanded by the US and India. Islamabad also seems to have, for the moment, curbed the intrusion of militants into neighbouring countries. The government changed over three dozen laws over the past year in order to comply with the FATF's required international standards as laid out by the country's "action plan."⁵¹ At the end of its latest plenary of February 2021, the FATF appreciated "the significant progress across a comprehensive CFT action plan" and observed that it "has made progress across all action plan items and has now largely addressed 24 of the 27 action items."⁵²

Above all, Pakistan played and is still playing a major role in facilitating peace talks and, ultimately, a peace deal between the US and the Taliban. By mid-2020 the Trump administration had been largely content with Islamabad's Afghan policy. For China, the 2018 greylisting turned out to be a blessing in disguise. In addition to getting the coveted position of chairmanship of the FATF, Beijing—without losing much face after withdrawing support from

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48. Andrew Small, *The China-Pakistan Axis: Asia's New Geopolitics* (New York: Oxford University Press, 2015).
 49. Raj Verma, "China's new security concept: India, terrorism, China's geostrategic interests and domestic stability in Pakistan," *The Pacific Review*, 2019.
 50. Umair Jamal, "Why did China pull support for Pakistan at the Financial Action Task Force?" *The Diplomat*, 28 February 2018, <https://thediplomat.com/2018/02/why-did-china-pull-support-for-pakistan-at-the-financial-action-task-force/> (accessed 19 June 2020).
 51. Press Trust of India, "Pakistan needs legislation to meet three outstanding FATF benchmarks," 2 March 2021, <https://www.thehindu.com/news/international/pakistan-needs-legislation-to-meet-three-outstanding-fatf-benchmarks-report/article33970539.ece> (accessed 21 March 2021).
 52. FATF, "Jurisdictions under increased monitoring—February 2021," Paris, <https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-february-2021.html> (accessed 12 December 2020).

Islamabad—was able to indirectly push its ally to take on the vexing issue of domestic terrorism.

It is very important to understand how the FATF platform helped to bring about these desired results. When the FATF put Pakistan on the greylist, the country, at the mercy of international financial assistance, was precariously exposed to the economic ramifications of “enhanced due diligence” in the case of greylisting and “countermeasures” as a result of a looming blacklisting. By June 2018 (when it was placed on the greylist), Pakistan’s economy was beset by multiple economic challenges, such as declining growth, high fiscal and current account deficits, steep currency depreciation, and rapidly depleting foreign exchange reserves. The trade deficit widened to all-time high of US\$37 billion,⁵³ resulting in exchange reserves that plunged from US\$16 billion to US\$9.6 billion, within just two months.⁵⁴ Under these grave economic circumstances, the new government of Pakistan Tehreek-e-Insaf (PTI) approached the International Monetary Fund (IMF) for a whopping bailout of up to US\$12 billion. Additionally, Pakistan sought billions in financial assistance from China and Gulf friends.

In fact, the IMF linked its loan package to Islamabad’s commitments to the FATF.⁵⁵ While increasing the pressure on Pakistan, the IMF representative in Islamabad warned that failure to exit the greylist was “a risk” to the IMF’s US \$6 billion bailout deal.⁵⁶ Likewise, Moody’s, the international credit rating agency, reminded Islamabad that its presence on the greylist had grave consequences for the health of Pakistan’s economy. Islamabad found this link between loan and compliance with FATF standards stifling enough to demand that the IMF bailout package be separated from FATF demands.⁵⁷ Pakistan’s Foreign Minister Shah Mahmood Qureshi surmised a rather gloomy picture: a special analysis conducted by the Foreign Office found that the greylisting “has costed Pakistan at least US \$10 billion” so far.⁵⁸ Likewise, PM Imran Khan recently echoed the same bleak picture:

If Pakistan is downgraded [from greylist] to blacklist then people must know what impacts it will have on this country. It will mean that all dealings of our banks—like

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- 53. Mubarak Zeb Khan, “Trade gap hits record \$37.7 bn,” *Dawn*, 12 July 2018, <https://www.dawn.com/news/1419509> (accessed 12 December 2020).
 - 54. Agence France-Presse, “IMF bailout on the cards for Pakistan’s next government: Analysts,” *Dawn*, 9 July 2018, <https://www.dawn.com/news/1418771> (accessed 12 December 2020).
 - 55. “IMF links Pakistan bailout talks to FATF grey list,” *Pakistan Today*, 26 November 2018, <https://profit.pakistantoday.com.pk/2018/11/26/imf-links-pakistan-bailout-talks-to-fatf-gray-list/> (accessed 12 December 2020).
 - 56. Shahbaz Rana, “Exiting FATF grey list vital for IMF deal: Daban,” *The Express Tribune*, 6 August 2019, <https://tribune.com.pk/story/2029068/2-exiting-fatf-grey-list-vital-imf-deal-daban/> (accessed 19 June 2020).
 - 57. “Pakistan wants IMF to separate FATF from programme,” *Dawn*, 31 October 2019, <https://www.dawn.com/news/1513966> (accessed 10 December 2020).
 - 58. Aditya Raj Kaul, Twitter post, 3 April 2019, <https://twitter.com/adityarajkaul/status/1113511427279609857?lang=en> (accessed 12 December 2020).

Iran—will be ceased; it will mean that no international financial institutions will be dealing with Pakistan. It will directly pressure our rupee [currency] and rupee will depreciate and when the rupee will depreciate and [the grim question is] to what extent its value will drop as we don't have foreign currency reserves to save [back] the rupee. When the rupee will depreciate, what will result is that electricity, gas, oil, [and] everything will get [more] expensive in Pakistan. People are talking about the price-hiking now but if we get into blacklist or face that price-hiking [as a result of blacklisting], our economy will crash [again].⁵⁹

This entire episode reveals the underlying coercive power of the FATF listings. With Pakistan's economy heavily reliant on foreign aid at the time of its listing, the looming threat of blacklisting,⁶⁰ and its severe economic ramifications worked effectively in getting the country's to comply with Trump administration demands as well as implementing the AML/CFT action plan. IMF lending after all is not immune to US sanctions and influence,⁶¹ and this fact has not been lost on Pakistani policy-makers.

All these desired outcomes, however, could be carried out perfunctorily given the deep-rooted patterns of Pakistan's counterterrorism approach—namely, the lack of both will and institutional capacities. Pakistan had long been unwilling to deal comprehensively and decisively with homegrown proscribed entities and groups. Despite the fact that Pakistan has fought a deadly war against terrorism, glaring exceptions are there to complicate the country's overall performance. JuD, JeM, HQN, and others are part of this pattern, inviting international pressure and troubles for Pakistan time and again. Though Pakistan has lately adopted many legislative measures in an effort to meet the demands of the FATF action plan, implementation of those rules effectively is a different task.⁶²

Conclusion

The 2018 greylisting of Pakistan was, at face value, based on valid reasoning. Pakistan, according to the FATF, fell short of fulfilling its commitments as a result of its 2012–15 greylisting. However, in principle, the timing and method of the move was contentious, as it sidestepped the procedures of the FATF review process. In fact, geopolitical manoeuvrings by the US and India set the

59. "PM Imran Khan's Exclusive Interview, Part 1," YouTube video, 2:29, from ARY News, 27 August 2020, posted by ARY News 27 August 2020, <https://www.youtube.com/watch?v=C5gNFrX1jzY> (accessed 13 December 2020).

60. The FATF statement after October 2019 plenary warned Pakistan bluntly that failure to implement its action plan could lead to country's blacklisting.

61. Byungwon Woo, "Economic sanctions and the politics of IMF lending," *International Interactions* 44, no. 4 (2018): 681–708.

62. It bears noting that the FATF rates the "technical compliance" and "effectiveness" of AML/CFT standards (of any country) separately. While Pakistan's technical compliance was rated as poor by the APG in September last, its performance across the effectiveness standards has yet to be measured.

stage for the hasty greylisting of Pakistan. While the US leaned on the UK, France, Germany, and Saudi Arabia (though only during the second discussion), India made a convincing case with Russia, France, and China (though only during the second discussion) to put Pakistan on the list. Pakistan was thus deprived of the crucial one-year time window that it deserved under the rules and procedures of the FATF.

That finding, however, is not an assertion that Pakistan did not qualify for the list. Similarly, it would be implausible to say that, had the country been given due time, it would have complied with FATF demands in such a short time. Instead, the article—through critical evaluation of Pakistan’s case study—seeks to highlight the intricate procedures and geopolitics behind Pakistan’s greylisting, which are otherwise largely omitted from existing narratives.

Though the ultimate success of Pakistan’s greylisting has yet to come about, the efficacy of the listing is manifest to an extent. Islamabad has not only cracked down against the militant outfits, a move that India and the US long demanded, but the government also made serious efforts for the Afghan peace talks. China also has gained from the FATF decision. Even if China had, on many occasions, blocked Indian and Western attempts to blacklist the JeM leader at the UNSC, it had indeed wanted Pakistan to restrain these homegrown militants, not least since the launching of the China–Pakistan Economic Corridor in 2014.

This article argues that changes in Pakistan’s counterterrorism approach, both at domestic and regional levels, could be achieved by the underlying mechanism of economic coercion. The greylisting of Pakistan was effective because it was calculated in its timing and target: It came at a moment when Pakistan desperately needed foreign financial assistance and had the potential to dissuade foreign institutions, markets, and even countries from assisting Pakistan. Independent pressure from the US and the IMF also pushed Pakistan toward reforms and changes.

Pakistan has lamented the political and contentious nature of its greylisting (as explicated by this study). Its arch-rival India—for strategic purposes and to cover its own failings in the IAK—has time and again used the FATF platform as an instrument to pressure Pakistan.⁶³ Hence, Pakistan’s claims of being a victim of power politics have to be understood in this context. In a similar fashion, Pakistan deserves to be appreciated for the positive role it has played in the Afghan peace process and for undertaking the onerous AML/CFT measures. Even if these factors somehow support Islamabad’s position that its case was mishandled, the country’s AML/CFT responsibilities can hardly be ignored. Pakistan has to implement the FATF action plan in spirit and adopt serious structural reforms to curb the growth and activities of militant outfits at the domestic level. Regardless of any international pressure, Pakistan must consider curbing terrorist elements for its own good.

63. Abdur Rehman Shah, “India and Pakistan at the Financial Action Task Force: Finding the middle ground between two competing perspectives,” *Australian Journal of International Affairs* 75, no. 2 (2021): 136–141 (published online 16 July 2021), <https://doi.org/10.1080/10357718.2020.1793897>.

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